

Message Text

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S E C R E T CAIRO 11553

EXDIS

E.O. 11652: GDS
TAGS: PFOR EAID EG SA
SUBJ: FAHMY ON SAUDI AID

1. WHEN WITH FAHMY YESTERDAY IN ALEXANDRIA, I ADVERTED TO GOE CONCERN ABOUT \$2 BILLION GODE CAPITALIZATION FIGURE. SAID I HAD ALSO HEARD REPORTS THAT SADAT HAD IN FACT OBTAINED SOME SORT OF A PROMISE FROM KING KHALID, DURING THE PRESIDENT'S RECENT TAIF TRANSIT, OF ADDITIONAL SAUDI FINANCIAL HELP. WHAT WAS THE SITUATION? FAHMY CLAIMED KING KHALID HAD INDEED AGREED TO ADDITIONAL FUNDS FOR EGYPT, BUT WAS TOTALLY VAGUE ON DETAILS.

2. FAHMY THEN LEVELLED SOME SHARP CRITICISM AGAINST THE SAUDIS. THEIR NIGGARLY ATTITUDE TO EGYPT'S FINANCIAL REQUIREMENTS WAS SHAMEFUL. IN FACT, THERE WERE SOME SAUDIS WHO ARE CONTENDING THAT ALL SAUDI FOREIGN AID, INCLUDING ASSISTANCE TO EGYPT, SYRIA AND OTHER ARAB STATES, SHOULD BE TAKEN ONLY FROM THE INTEREST ON TOTAL SAUDI CAPITAL HOLDINGS. IMAGINE SUCH STINGINESS FROM THESE UNGRATEFUL PEOPLE* WHILE EGYPTIAN /SAUDI RELATIONS ARE GOOD, THE SAUDIS ARE THREATENING GOE SHABBILY.

3. HE THEN CITED FOLLOWING EXAMPLE. AN AGREEMENT HAD BEEN REACHED LATE LAST YEAR WHEREBY SAG WOULD PROVIDE

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\$750 MILLION FOR EGYPTIAN ARMS PURCHASES. THIS MONEY

WOULD NOT BE DISBURSED TO EGYPT, BUT WOULD BE PAID DIRECTLY BY SAG TO THE MANUFACTURERS. EGYPT WOULD SIMPLY TAKE DELIVERY OF THE ARMS. WHEN THIS AGREEMENT WAS DISCUSSED IN THE SAUDI CABINET PRINCE ABDULLAH IBN ABD AL-AZIZ HAD OBJECTED. HE HAD INSISTED THAT SARG SHOULD DEDUCT FROM THE PROMISED \$750 MILLION RECENT KHARTOUM SUBSIDY PAYMENTS. SADAT, WHEN APPRAISED OF THIS WHILE IN RIYADH IN MARCH OF THIS YEAR, HAD BEEN EXTREMELY ANGRY. KING KHALID HAD HEARD ABOUT SADAT'S ANGER AND TELEPHONED THE PRESIDENT, IN FAHMY'S PRESENCE, TO ASSURE HIM THAT SAG WILL PROVIDE WHATEVER GOE NEEDS FOR ARMS PURCHASES. FAMY CLAIMS AN AGREEMENT WAS SUBSEQUENTLY SIGNED WITH SAG TO PROVIDE \$750 MILLION FOR ARMS PURCHASES.

4. COMMENT: EGYPTIAN UNHAPPINESS WITH WHAT THEY REGARD AS SAUDI PRENURIOSNESS IS NOT NEW. I AM SKETPTICAL THAT SADAT GOT ANYTHING MORE FROM KHALID THAN A VAGUE PROMISE ABOUT CONCERN FOR EGYPT'S WEEL BEING AND WILLINGNESS TO HELP IN THE FUTURE. BUT I MAY BE WRONG. I MEET WITH MINFINANCE ABU ISMAIL TOMORROW AND INTEND ALSO TO ASK HIM. THE STORY OF THE ARMS ALLOCATION, WHILE IT MAY BE TRUE, IS NOT FULLY CONSISTENT WITH WHAT WE HAD PREVIOUSLY HEARD. SAG, IN THE PERSON OF KAMAL ADHAM , DID INFORME GOE LATE LAST YEAR THAT \$750 MILLION HAD BEEN PROPOSED FOR ARMS PURCHASES FOR EGYPT. HOWEVER, WE HAD PREVIOUSLY BEEN TOLD BY THE BRITISH, WHO HAVE BEEN IN CLOSE TOUCH WITH ADHAM ON THIS MATTER BECAUSE OF THEIR OWN ARMS SALES TO EGYPT, THAT ONLY \$350 MILLION WERE EVENTUALLY ALLOCATED.

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